

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Market Dominant Product Prices
First-Class Mail & Standard Mail
Discover Financial Services

Docket No. MC2015-3

Market Dominant Product Prices
Discover Financial Services (MC2015-3)
Negotiated Service Agreement

Docket No. R2015-2

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued November 6, 2014)

To clarify the basis of the Postal Service's request to add a Discover Financial Services (Discover) negotiated service agreement (Agreement) to the market-dominant product list,¹ the Postal Service is asked to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than November 13, 2014.

1. Please provide the monthly volumes of First-Class and Standard mail tendered by Discover for the two-year period ending September 30, 2014. First-Class and Standard mail volumes should be separately stated, by category.

¹ Notice of the United States Postal Service of Filing Request to Add Discover Financial Services Negotiated Service Agreement to the Market-Dominant Product List, October 27, 2014 (Request).

2. In connection with the Commission's 2014 Annual Compliance Determination Report, please provide an analysis of the lessons learned from the prior negotiated service agreement with Discover. Specifically, address: (1) how well the negotiated service agreement achieved its goal of maintaining Discover's total contribution from First-Class Mail and Standard Mail; (2) how well the negotiated service agreement achieved its goal of providing an incentive for growth in net contribution beyond that; (3) the lessons the Postal Service has learned regarding methods for staunching First-Class Mail volume declines; and (4) what efforts the Postal Service has made to develop a net value method with quantitative inputs. Annual Compliance Determination Report at 68-69, March 27, 2014. In addition, please explain how this inquiry affected, if at all, the currently proposed negotiated service agreement.
3. 39 C.F.R. § 3010.42(f) requires that a projected change in the net financial position of the Postal Service as a result of the Agreement be based on accepted analytical principles.
 - a. Please confirm that the Postal Service calculates negative \$6,180,863 as the total net value to the Postal Service for its forecasted after-rates volume using the accepted methodology. If not confirmed, please explain.
 - b. The accepted methodology applies an elasticity test over a range of possible volume outcomes. Please supplement the Request to conform to this requirement.
 - c. 39 C.F.R. § 3010.42(f)(5) requires that if the Postal Service believes the accepted analytical principles are not the most accurate and reliable methodology available, then the Postal Service must provide an explanation for that belief.

Please identify the location in the Postal Service's Request where this information is provided. If such information has not been provided, please supplement the Request to conform to this requirement.

4. If the Commission cannot find that the Agreement "improve[s] the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service," under section 3622(c)(10)(A)(i), *see also* 39 C.F.R. § 3010.42(f), the Commission may also approve the agreement on an alternative ground if it "enhance[s] the performance of mail preparation, processing, transportation, or other functions" under section 3622(c)(10)(A)(ii); *see also* 39 C.F.R. § 3010.42(g). Please identify the location in the Postal Service's Request where this information is provided. If such information has not been provided, please supplement the Request to conform to this requirement.
5. The Agreement contains an implementation date of "December 1, 2014 or a date mutually agreed upon by the Parties...." Request, Attachment B at 2. The Agreement's effective date is "one (1) business day following the day on which the Commission issues all necessary regulatory approval." *Id.*
 - a. Please confirm that the Agreement's implementation date could occur before its effective date.
 - b. Please explain whether revenue for and volume from mail tendered before the Agreement's effective date (but after the implementation date) would constitute part of the Agreement's year 1 "Annual Revenue Growth Threshold" or "Baseline Volume," respectively.
6. Please explain how Baseline Volume and Baseline Revenue thresholds will be adjusted pursuant to Article III.E, related to acquisitions or mergers, and Article III.F, related to sales of a division, group, or entity of Discover, of the negotiated service agreement.

7. Please confirm that a rebate paid under the Agreement would not affect the Annual Revenue Growth Threshold for a given year. If not confirmed, please explain.
8. The following table compares the Discover Fiscal Year volumes for FY 2012 and FY 2013 provided by the Postal Service in the data collection reports for the Docket No. R2011-3 (*i.e.*, the prior Discover negotiated service agreement) and the information provided in the current dockets in the workbook titled “DFS 2014 NSA Financials.xls.” Please reconcile the apparent discrepancies.

	R2015-2 Data			R2011-3 Data	
	2012	2013		2012	2013
First-Class Mail Letters	212,566,074	208,651,830		214,751,827	213,528,996
Standard Mail Letters	981,295,363	1,033,178,685		955,827,828	1,036,465,402
Total DFS	1,193,861,437	1,241,830,515		1,170,579,655	1,249,994,398
Source:					
FY12-PRC-LR-6 "ACR_NSA_FY12_report PRC.xls" tab MC2011-19 Discover NSA cells E61, E62					
FY13-PRC-LR-6 "ACR_NSA_FY13_report PRC.xls" tab MC2011-19 Discover NSA cells E63, E64					

9. The following table details the Postal Service’s estimate of incremental volume for contract years 1-3 (as provided in the workbook “DFS Appendix”) and the elasticity implied by these estimates.

		Contract Year 1	Contract Year 2	Contract Year 3
	<u>Before-Rates Volume</u>			
a	First-Class Mail	201,009,500	193,974,168	187,185,072
b	Standard Mail	828,784,277	780,714,789	735,433,331
	<u>Incremental Volume</u>			
c	First-Class Mail	31,621,918	41,579,390	48,368,487
d	Standard Mail	194,796,365	255,723,302	301,004,761
	<u>Percent Volume Change</u>			
e=c/a	First-Class Mail	15.7%	21.4%	25.8%
f=d/b	Standard Mail	23.5%	32.8%	40.9%
g	Rebate Percentage	2.5%	2.5%	2.5%
	<u>Implied Price Elasticity</u>			
h=e/g	First-Class Mail	-6.29	-8.57	-10.34
i=f/g	Standard Mail	-9.40	-13.10	-16.37

- a. Please confirm the implied elasticities listed above accurately reflect the data provided by the Postal Service.
 - b. If part a is confirmed, please provide additional justification supporting the deviation of these elasticities from the subclass elasticities. If part a is not confirmed, please calculate and provide justification for implied elasticities for each year of the Discover negotiated service agreement.
10. 39 C.F.R. § 3010.42(f)(3) requires the Postal Service to file an analysis of the effects of the Agreement on the contribution to institutional costs from mailers who are not party to the Agreement. Please identify the location in the Postal Service's Request where this information is provided. If such information has not been provided, please supplement the Request to conform to this requirement.
11. 39 C.F.R. § 3010.42(h) requires that the Request provide details regarding any and all actions (performed or to be performed) to assure that the Agreement will not result in unreasonable harm to the marketplace. Please identify the location in the Postal Service's Request where this information is provided. If such information has not been provided, please supplement the Request to conform to this requirement.
12. 39 C.F.R. § 3010.43 details the minimum requirements for the Postal Service's data collection plan and data reporting during the negotiated service agreement's term. 39 C.F.R. § 3010.43(b) requires that the data report under the plan is filed "60 days after each anniversary date of implementation." In addition, 39 C.F.R. § 3010.43(b) describes the minimum requirements for the data report.

Please explain how the data collection plan presented in Attachment D to the filing conforms to the requirements of 39 C.F.R. § 3010.43. If necessary, please revise the proposed data collection plan for the Agreement.

By the Chairman.

Ruth Y. Goldway